

Government, Business, and Human Development: An International Experience

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Abstract

The article is a study of association between the roles of government and human development indicators. It discusses, relating to the public sector, the theories of growth, restraints, performance, reforms, privatization, regulation, and welfare state. It uses data from various publications of the United Nations, Europa, CIA of New York, and Transparency International for the period from 1996 to 1998. Regression results suggest that human development indicators are positively associated with public welfare schemes and quality of government but negatively associated with the size of governments' and its direct involvement in business and industry. The article concludes that government should not be involved in business where it does not have competitive advantage rather it should work more on other important areas, where it has competitive advantage, like income redistribution and removal of extreme forms of human deprivation, social services, cultural and welfare activities, maintaining harmonious labor-employer relationship, human well-being and human rights. It recognizes the need for further studies on the process aspects of these roles of government for a better understanding of the efficiency and effectiveness of such roles.

1. INTRODUCTION

Government plays important roles throughout the globe. The areas where government contributes the most are public welfare, monitoring and regulating business and industry, policy issues, fiscal and monetary matters, and planning and allocation of resources. In UK, USA, and Canada, government plays mainly the supervisory role whereas in many developing countries it is directly involved

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in business and industry. In Europe, it plays a wider role in social welfare activities. All countries of the world have government agencies and organizations in areas of banking, finance and securities, insurance, and trade. In many countries, governments have direct ownership in heavy industries like steel and engineering, shipbuilding, mining, telecommunications, petroleum, gas and other natural resources where huge capital is necessary, risk is high, and profitability in the initial years is low. While there are theories for growth of public sector there are theories for its restraints. Theories of growth mainly relate to pure public goods and governments' welfare activities, and theories of restraints mainly relate to governments' direct involvement in business and excessive regulation. There is misunderstanding among various quarters of the society over the roles of government. It is widely believed that public sector is wastage. Another extreme view is that government should regulate business, economy, and society as much as possible. Also, there is a gap in knowledge that the roles of government have changed over time and that the structures of economy, polity, and social composition have also changed. In this article, an attempt is made to synthesise these divergent views for arriving at a better 'knowledge' about the nature of the roles of government.

There are studies on government-business relationships in the context of individual countries and regions (Kalecki 1972; Kole and Mulherin 1997; Li 1997; Besley and Ghatak 2001). Also, there are country-specific studies on the roles of government in human development (Barr and Whynes 1993; Yeon 1986; Krause 1988; Oxford University Press 1999; Harvard School of Public Health 1985). To my knowledge, there is no study that looked into these issues from the global perspective. This article attempts to look empirically into the global evidence in support of the theories of growth and the theories of restraints. In particular, it examines the roles of government in human development through public provisions and restraints from business and industry. It is, however, recognized that both the roles of government and human development issues are multi-dimensional in nature, including historical and cultural perspectives, resource base, technology, and demographic variables. This article only considers some secondary data on government such as government provisions for public welfare, public sector enterprises, size of government, women participation in government, etc. and examines if there is any association between these roles of government and human development indicators. The hypothesis of the paper is that government welfare provisions are positively and government involvement in business is negatively associated with human development. For researching a topic of global experience this approach appears to be easier and appropriate. The

rest of the paper is organised into the following sections: literature, theoretical framework and model, data, results, and discussion and conclusion.

2. LITERATURE

There is diversified literature on the roles of government. These include the rationale for the growth of government, both central and local, growth of public sector enterprises in an intermediate regime, superior performance of private firms over state-owned enterprises, reform in state-owned enterprises, privatization, government regulation, and government welfare provisions.

2.1. Rationale for the Growth of Government

According to the Scottish philosopher David Hume:

“Man, born in a family, is compelled to maintain society from necessity, from natural inclination, and from habit. The same creature, in his further progress, is engaged to establish political society, in order to administer justice, without which there can be no peace among them, nor safety, nor mutual intercourse. We are therefore, to look upon all the vast apparatus of our government....We need a free government to serve the lives and properties of the citizens, to exempt one man from the dominion of another, and to protect everyone against the violence or tyranny of his fellow-citizens” (Hume 1993: 28, 62).

Ulen (1990) views that human beings make errors in the processing of information because of their cognitive imperfections in addition to asymmetry of information and market imperfections. So, he feels the need for corrective public policy for providing or subsidizing the production of information. Stiglitz (1989) argues that among the ‘commodities’ for which markets are most imperfect are those associated with knowledge and information. He further argues that when spillovers of knowledge within a country are less than perfect, then markets will never be perfectly competitive. He illustrated the thesis that market failures, particularly those related to imperfect and costly information may provide insights into why the LDCs have a lower level of income. Available statistics reveal that there has been growth in public sector internationally in terms of total revenue, total expenditure, number of laws enacted, the services performed by the government, and degree of regulation imposed upon the private sector (Middleton 1996: 85-132). The growth is prominent in social services, economic services, law and order, and environmental services. Public sector growth can be analyzed

using a number of different approaches: the historical, which stresses the role of war, technology, searing influences such as the inter-war, depression and stagflation in the 1970s, and the advent of democracy; short and long-term forces, which differentiate over time and can be used to distinguish between policy and non-policy determinants; and in terms of the demand for public services and supply conditions. One reason for government ownership often through nationalization was a historical resentment of the foreigners who had owned many of the largest firms in these countries. Musgrave (1969) noted three main forces for the growth of public expenditure: the expansion of administrative and protective functions of the state, which stemmed from both the substitution of public for private regulatory activity, and additional demands generated by industrialization, which had increased the complexity of legal and economic arrangements; the growth of cultural and welfare expenditures, especially on education, and the redistribution of income; changes in technology and the scale of investment which created conditions of monopoly requiring government regulation or production. Brown and Jackson (1990) explained market failures and externalities behind growth of government. Downs (1967) and Niskanen (1971) argue that the benefits of public expenditure are systematically overstated by self-serving interest groups. More particularly, it is not just politicians, but budget-maximizing and potentially self-aggrandizing bureaucrats who have incentives to expand their departmental budgets to increase their prestige and status within the bureaucracy.

2.2. Public Sector in an Intermediate Regime

According to Kalecki (1972: 163) an intermediate regime is characterized by the domination of the polity by an alliance of the lower middle class or petty bourgeoisie and the rich peasants. Its intermediate character comes from the fact that this ruling class comes neither from the top nor the bottom echelons of the social hierarchy. The upper bourgeoisie is not only politically weak but has limited capacity to stimulate growth. In this regime, the expansion of the state sector becomes an indispensable precondition for the growth of the economy and the prosperity of the intermediate regime. In economies, where foreign capital had limited access or was so totally identified with the colonial system that the demise of the colonial regime led to the complete withdrawal of foreign capital, a natural vacuum exists which in the post-colonial phase of the intermediate regime is filled by the state. In such a situation, the upper bourgeoisie is either non-existent or underdeveloped because of the backwardness and/or domination of the national

economy by foreign capital. Its growth was and is likely to be a function of state patronage. In some countries, the resource base of the economy or its market potential does not make obviously attractive to new foreign investment. In such a regime, the state sector becomes the lead sector of the economy.

2.3. Performance of State-Owned and Private Firms

In the above two sections we see some rationale for the growth of public sector. This section looks at the literatures on performance of state-owned and private firms. Literature on the economics of property rights suggests that public ownership is inherently less efficient than private firms (Furubotn and Svetozer 1972). The essential argument is based on the fact that public ownership is diffused among all members of society, and no member has the right to sell his share. Given these aspects of public ownership, there is little economic incentive for any owner to monitor the behavior of the firm's management. Boycko et al. (1996) argue that politicians cause government-owned firms to employ excess labor inputs. Krueger (1990) suggests that such firms may be pressured to hire politically connected people rather than those best qualified to perform desired tasks. More generally, government-owned firms are thought to forego maximum profit in the pursuit of social and political objectives. State firms are inefficient not just because their managers have weak incentives to reduce costs but because inefficiency is the result of the government's deliberate policy to transfer resources to suppliers (Shleifer and Vishny 1994). Megginson and Netter (2001) have summarized the papers on efficiency of state and private ownership. The studies show that private firms outperform government-owned and mixed enterprises. They, however, have inconsistent findings as to the superior performance of mixed enterprises over SOEs. There is increasing evidence as well that private firms have substantially lower costs and higher productivity in many services that governments have traditionally provided, such as garbage collection (Savas 1982).

There are also agency problems where imperfect information and the absence of direct monetary rewards complicate how and to what extent government (the agent) acts in response to the wishes of voters (the principal). The residual cash flow claims of these firms are not readily transferable like the shares of a private corporation (agency problem). This impairs residual claimant incentives to monitor managers and, ultimately, degrades firm performance. In such circumstances, it is costly for the principal to control the agent and also difficult for the agent to interpret the principal's wishes and willingness to fund policy

programs (Myhrman 1985). Vickers and Yarrow (1991), however, point out that agency problems arise in private firms as well as public ones. In most of large private corporations managers own little of the stock. Because monitoring of managers is costly, a divergence arises between their objectives and those of private shareholders. Caves and Christensen (1980), and Kole and Mulherin (1997) view that government firms are intrinsically no less efficient than private firms. These studies take the position that competition in the product market is a more influential determinant of firm efficiency than ownership and that under competitive conditions government and private firms are equally efficient. One would expect competition to exert some market pressure on government firms to control costs and to reduce some of the opportunities for discretionary behavior on the part of bureaucracy.

2.4. Reforms and Incentive Pay

The above section shows enough theories and evidences for government firms to be inefficient. It also appears that government firms can be efficient if there is competitive environment in the market. This section looks at these competitive elements and the state of government firms. Li (1997) documents marked improvements in the marginal and total factor productivity of 272 Chinese SOEs over the period 1980-89 as a result of economic reforms in China, including the increased use of incentives. Shirley and Xu (1998) came to the opposite conclusion concerning the ability of incentive contracts to improve firm performance. They analyze the effects of these contracts in twelve monopoly SOEs, and find that the incentive contracts have no effect on profitability or labor productivity. They attribute the failure of the contracts to the inability of governments to follow through on promised actions and the inability of supervisory agencies to negotiate and monitor the contracts effectively. Chowdhury (2001) showed that managers in public sector enterprises in Bangladesh misused incentive schemes for their own benefits, and received, on average, two months' basic salary as cash bonus a year as incentive pay, in spite of millions of dollars as losses in the income statements. These results could be due to the fact that the country was ruled by the military and did not have its parliament in twelve years out of its thirty-one years since independence in 1971. Pinto et. al. (1993) test whether privatization is required to improve performance of SOEs by examining how 'Big Bang' reforms of January 1990, which liberalized prices, tightened fiscal and monetary policy and introduced competition without privatization. They found significant performance

improvement due to macroeconomic stabilization package, even without privatizing, mostly due to hard budget constraints, tight bank lending policies, enhanced credibility of government's 'no bailout pledge'. Bertero (2000) shows that Italian state-owned manufacturing enterprises do respond to financial pressure by increasing productivity and reducing employment in a hard budget constraint environment.

2.5. Privatization

The objectives of privatization discussed in this section are more diversified than the objectives of reforms in the public sector discussed above. The objectives of privatization as described in Price Waterhouse (1989) are: (i) to raise revenue for the state, (ii) promote economic efficiency, (iii) reduce government interference in the economy, (iv) promote wider share ownership, (v) provide the opportunity to introduce competition, (vi) subject SOEs to market discipline, and (vii) develop national capital market. State ownership has been substantially reduced since 1979 in most countries of the world (Megginson and Netter 2001). According to Gibon (1998), the cumulative value of proceeds raised by privatizing governments exceeded \$1 trillion during the second half of 1999. Megginson and Netter (2001) report the studies on post-privatization performance of SOEs, which show that in most countries performance improved after divestment. However, Sachs et al. (2000) conclude that change in ownership is not enough to improve macroeconomic performance; the gains from privatization come from change in ownership combined with other reforms such as institutions to address incentive and contracting issues, hardened budget constraints, removal of barriers to entry, and an effective legal and regulatory framework. In recent years, there has been a dramatic change in the division of responsibility between the state and the private sector for the delivery of public goods and services with an increasing trend toward contracting out to the private sector and public-private partnerships (Besley and Ghatak 2001).

2.6. Regulation and Excess Regulation

The government plays an important role in regulating the market. A government regulates not only the public sector but also the private sector business, commerce, and trade in an economy. Pigou (1932) indicated that some kind of government actions was required to restrain those whose actions had harmful effects on others, often termed negative externalities. Externalities arise when the

private economy lacks incentives to set up a potential market in some commodity and when the non-existence of this market results in a pareto-suboptimal allocation. Even in the most advanced states there are failures and imperfections, there are obstacles that prevent a community's resources from being distributed in the most efficient way. Government regulation is continuously expanding in the USA. Number of regulatory agencies was below 10 in 1980 whereas about 60 in 1990s. The operating expenses of these agencies were \$10 billion in 1989-almost twice the amount spent a decade ago. Examples of the newer regulator agencies include the Environmental Protection Agency, the Consumer Product Safety Commission, the Occupational Safety and Health Administration, and the Equal Employment Opportunity Commission (Weidenbaum 1990: 20-22). The rationale for regulation is: responding to natural monopoly conditions, encouraging sensible use of natural resources, requiring producers and consumers to take account of external costs, and dealing with asymmetry of information. Government regulation should be a device for enforcing competition and be carried to the point where the incremental benefits equal the incremental costs so that excess regulation is avoided.

There are criticisms against excess government regulation, monitoring and supervision because they involve rent seeking, corruption and privileges thus frustrating competition and increasing transaction costs. According to Becker (1997: 26), "when government regulation and control go too far, the engine of growth first sputters and then stops working altogether". Growth is slowed when special interest groups use their influence to obtain excessive political favors, such as large subsidies for exports or big quotas and tariffs on competing imports. In Spain, where it is almost impossible to fire workers on the regular payroll, about one-third of employees are temporary. Tax benefits for employee share ownership have reduced US federal revenue by billions of dollars since 1983, a period of large budget deficits. Growth in employment protection legislation in Britain was responsible for much of the rise in male unemployment rate from 5.5% in 1975 to more than 15% in 1984 (Becker 1997: 25-47). Analysis of case studies show that intervention by the Singapore government in fostering economic development has not always been successful. In particular, past intervention in the labor market like the high wage policy of the early 1980s has proved to be an unmitigated disaster. However, interventions that led to the direct creation of national competitive advantage, like the information-telecommunications infrastructure, R & D subsidy and manpower development, have proved to be more successful. A strong non-corrupt and market-oriented public sector appears to be crucial to ensure that interventions are market facilitating, correcting and enhancing, rather than distorting (Tan 1995).

2.7. Welfare State

Welfare is diverse in the source and also the manner of its delivery. Nevertheless, the state is the most important single agency involved in welfare activities in Britain and in most industrialized countries (Barr and Whynes 1993: 1-19). One common argument against support-mediated strategy (welfare state) however, is that it deflects resources to social services from investment and thus reduces economic growth and adversely affects future opportunities. Another argument against the excessive cost of welfare state is that it develops a dependency syndrome in which welfare recipients become dependent both economically and psychologically on the welfare services of the state (Campbell 1981). European social welfare policies that are financed by high taxes and mandates on business are at least partly responsible for a spectacular increase in European unemployment during the 1980s and 1990s. Generous leave for sickness and other reasons increase Sweden's absenteeism rate to 10% and Germany's to 9% compared with 2% to 3% in Japan and the US (Becker 1997: 39). But it is also true that a strategy of growth-mediated security does not necessarily make private incomes an exclusive vehicle for spending the fruits of growth. Direct provisioning by the state can assume an important role even when security is mediated by general economic growth. In growth-mediated strategy, high growth is often accompanied by increased inequality in the distribution of incomes so that the people in greatest need of capability enhancement may end up benefiting least from the general process of economic expansion. Furthermore, this strategy may be preoccupied with the expansion of material opulence rather than with the basic quality of human life. As Yeon (1986) observes, in recent years government policy in the Republic of Korea has recognized the fact that rapid economic growth is a necessary condition but not sufficient condition for improving the income and standard of living of the population. In Singapore, the government has an impressive record of extensive activism in both income and social matters which has been seen as a major factor behind the rapid improvement of living conditions in that country in the last few decades (Krause 1988). Exchange entitlements depend not only on market exchanges but also on those exchanges, if any, that the state provides as part of its social security program. Given a social security system, an unemployed person may get 'relief', an old person a pension, and the poor some specified benefits. What prevents starvation and famine in Britain and USA is not the high average income or wealth of the British or the general opulence of the Americans, but the guaranteed minimum values of exchange entitlements owing to the social security system (Oxford University Press 1999: 6-7). The inadequacy of official policy in tackling the Bengal famine of 1943 has

been widely noted and criticized. The Famine Inquiry Commission (1945) provided a detailed analysis of the policy failures both of the Bengal government as well as of the Indian government. The governments of some of the oil-rich countries have been able to use their unusual and relatively recent opulence to make widespread public provisions for their citizens, and this is one of the reasons why life expectancy at birth and similar indicators have in recent decades moved to comparatively high figures in countries such as Kuwait and UAE. Experiences of China, Costa Rica, Chile, Sri Lanka, and the Indian state of Kerala suggest a close connection between the expansion of public support measures and the improvement of living conditions (Oxford University Press 1999: 246). The crucial role of public support in removing deprivation is visible not only in the achievements and failures of developing countries today, but also in the historical experiences of the rich and industrialized countries. This is illustrated by the sharp increases in longevity in Britain during the decades of the world wars, which were the periods of rapid expansion of public support in the form of public distribution, employment generation, and health care provisioning. The resilient persistence of hunger and deprivation in some sections of the population even in the richest countries of the world (e.g., the USA) seems to have a clear connection with the neglect of public support (Harvard School of Public Health 1985).

2.8. Local Government

It is difficult for the central government to grasp the problems of grassroots levels, so there are local governments to deal with areas, which are unique and exclusive to them. In USA, beside the federal government there are 50 states, 3043 counties, 19296 municipalities, 16666 township, 14556 school districts, and 33131 special districts (Rosen 1995). The most common form of government enterprise in USA has been the public authority (Walsh 1980: 213). Public authorities build and run public works of monumental ports, bridges, tunnels, parkways, great dams, ports, airports, public buildings, industrial and recreational parks. They provide essential services: water, gas, electric power, transportation, training, insurance, and mortgage finance. Because they are widely regarded as business rather than as political enterprises, public authorities have enjoyed support from groups in nearly all positions of the political spectrum. They are owned by the government that so establishes them, but they are hybrid creatures possessing some of the characteristics of private firms and some of public agencies. They are corporations without stockholders, political jurisdictions without voters or taxpayers. Sweden's municipal expenditure was 27.5% of GDP in 1994, which

was the largest among European countries. There are wider variations in municipal funding across Europe. On average, 35% of municipal funding comes from intergovernmental transfers including shared taxes and grants, and 65% from internal sources such as local taxes, user charges and borrowing (Bailey 1999: 87). In USA, Australia, Canada, and the European countries, the growth in user charges is the highest compared to grants and local taxes. Although there are wider variations in the extent of local government activities among countries regarding choice of activities, financing, and allocation of expenditures, there are some common trends however, for example, local government activities are financed mainly by internal sources, and among the internal sources, growth in user charges is the most common.

2.9. What the Government Should Do

The Greek word *govern* means to steer. The government's job is to steer the ship of the state, not to row it. Rowing, the delivery of services (or implementation of policies) is generally not well done by government. Policy-making and implementation should be separated. Government should see that services are provided, regulate their quality, and finance them as necessary, but it should leave the delivery to non-state organizations, which act as agents of the state (Ridley 1995). The government should act in an economy to create an infrastructure enhancing the rule of law, political stability, harmonious labor-employer relationship, a developed infrastructure to facilitate business communication, transportation, and government-business communication, a skilled, competent, and quality-conscious labor force, improved living conditions, and a lean, adaptable and honest public service (Carino 1995). Government as a non-market organization should not concentrate on those areas of activity in which it has no comparative advantage, such as manufacturing, as this will divert scarce government resources from those areas of activity (maintenance of law and order) in which it has an advantage in undertaking. A government can take the following functions: (i) rely on market-based private sector driven initiatives in the mobilization and allocation of resources, (ii) intervene only in cases of clearly established market failure, i.e., in cases where private sector operations do not correspond to social interests, (iii) provide pure public goods such as law and order, national defense, public infrastructure including assignment of property rights, and (iv) stable and predictable macroeconomic environment through appropriate coordination of fiscal, monetary, and exchange rate policies (Krueger 1990). In 1990s and beyond, there are at least three factors that will further change

traditional business-government relations (Jung 1995: 98-112). First, opening up the domestic market for foreign business community will affect the overall regulation of the economy by government, since the latter has to treat the domestic and foreign business sector on the same basis. Second, local government reform, i.e., the decentralization of economic decision making to local governments will erode the power that is currently held by economics ministries of the central government. Third, a new social and political environment will also influence the business-government relationship in future. Voluntary citizens' organizations with such causes as consumer protection and environmental protection have become more vocal and have more influence on governments' positive actions. Although government should cut its size, unregulated and uncontrolled private sector is not the alternative. There are evidences of exploitative behavior of unregulated private sector in many forms including exploitation of labor, environmental pollution, and monopoly profit. The strategy of public action can be as difficult as it is urgent. Public action includes not just what is done for the public by the state, but also what is done by the public for itself. Public action will be determined by what the public is ready to do, what sacrifices it is ready to make, what things it is determined to demand, and what it refuses to tolerate. The vehicles of public action are immensely varied. The terrible problems of resilient hunger in the modern world call for a more adequate challenge (Oxford University Press 1999: 61).

3. THEORETICAL FRAMEWORK AND THE MODEL

Synthesis of the above literature leads to the 'knowledge' that government should not be involved in business rather it should concentrate on prudent policy making, and, importantly, invest in public welfare goods and provisions. The public sector business under-performs compared to private firms for reasons including the lack of property rights and involvement of politics. Also, reforms in state-owned enterprises do not give dividend unless there is effective legal and regulatory framework. Government should invest in public welfare schemes because of market failures, information asymmetry, cognitive imperfections and self-interested behavior of human beings. To operationalize the above synthesis the following hypotheses are developed. Government provisions for public libraries and telephones can reduce asymmetry of information among rich and poor and thus help in human development. Quality of government and its small size are also hypothesized to be important predictors of human development. Government ownership in industries particularly in non-heavy industries is expected to be

dysfunctional because there are common criticisms against nationalized industries for being run by politics rather than commercial considerations. Women participation in government as a proxy for governments' neutral policy for gender is expected to be positively associated with human development. Various regression models are tested to determine the association between human development indicators as dependent variables and various roles played by government as independent variables. Human development, the dependent variable, however, is a multidimensional issue. It involves among many other things, the economic, socio-political, legal, and cultural factors. We use the measures of human development determined by the United Nations in the Human Development Report although these measures do not capture truly the multidimensional issues. Human development measures are: composite human development index, life expectancy at birth, adult literacy rate, gross enrolment ratio, GDP per capita, poverty level, and dependency ratio. The roles of government are measured by provisions for public telephones, provisions for public libraries, size of ministries, corruption in government, extent of nationalized industries, and women participation in government. The gross domestic product is used for controlling size and resource base of the economies, and age of the first constitution is used as a proxy for democracy and years of experience.

The regression models are checked for fulfillment of their assumptions. Logarithmic transformation of the variables is performed where necessary. Multicollinearity problem has been avoided. Diagnosis of the models shows that the linearity assumption holds good. Scatter plots of residuals against predicted values and also against each independent variable show no systematic patterns in the observed residuals. Moreover, the histogram of studentized residuals shows that almost all data fall under the normal curve. Various alternative functional forms of regression are tested. However, for place constraint, only selected results are printed.

4. DATA

Composite human development index, life expectancy at birth, adult literacy rate, gross-enrolment rate, GDP per capita, poverty level, dependency ratio, total GDP, women participation in government, and public telephones are available in the Human Development Report of the United Nations. UNESCO provides data on public libraries. Number of ministries and number of nationalized industries are available in Europa's the International Directory of Government. Countries' years

of first constitution are collected from CIA, New York, and corruption perception index is available from the Transparency International. The variables are defined in the respective publications. For example, the Human Development Index (HDI) is a composite index based on three indicators: longevity, as measured by life expectancy at birth; educational attainment, as measured by a combination of adult literacy (two-thirds weight) and the combined gross primary, secondary and tertiary enrolment ratio (one-third weight); and standard of living, as measured by GDP per capita. The number of nationalized industries here is not the actual number of units under different industries rather it is the number of listings for different types of industry, for example, listing for aircraft, automobile, and other heavy industries; listing for consumer products; and listing for textile, footwear, and household items. It is assumed that higher the number of listings the higher is the number of industries in the public sector.

5. RESULTS

Regression results in the accompanying table show that the various roles of government are significantly associated with human development. Public provisions for telephones and libraries are positively and significantly associated with human development index (HDI). Corruption perception value is positively associated with HDI indicating that good government influences human development. Governments' direct involvement in non-heavy industries is negatively and significantly associated with HDI. But governments' ownership of heavy industries has no significant predictive power although there are theoretical justifications for government involvement in heavy industries in some situations. Size of ministries is negatively associated with HDI indicating that high human development countries have small number of ministries compared to low human development countries. Women's participation in government as a proxy for governments' neutral policy towards gender is also a significant predictor of human development. All these results came after controlling for GDP as a proxy for countries' resource base, and age of the first constitution as a proxy for democracy and years of experience. Changes in R^2 and F value are significant except in column (4). These values suggest that the independent variables have significant predictive power after controlling for size of economies and age of constitution. It is to be noted that GDP in all the models and age of the constitution in most of the models have significant influence on human development. The independent variables explain 32% to 62% variations in the dependent variable. The results are similar when the dependent variables are GDP per capita, life

expectancy at birth, adult literacy rate, gross enrolment rate, poverty, and dependency ratio. These results however, are not printed here for brevity.

6. DISCUSSION AND CONCLUSION

The paper shows that government plays important roles in human development across the world. It documents that government provisions viz., public libraries and telephones help human development. Also, a good government, its neutral policy for gender, and non-involvement in business and industries are good for human development. Acquiring knowledge, particularly global knowledge, involves huge investment. Billions of people who earn less than \$2 a day are deprived of the knowledge and thus remain unskilled. Therefore, government provisions of public libraries both at central and local government levels can reduce the asymmetry of information and knowledge among the rich and the poor. This provision helps not only for acquiring skill but also for pleasure and cultural enlightenment. Also, public libraries are useful not only for students but also for the aged and retired. The New York Public Library's mission statement (Internet, May 2002) says, "It is everyone's university; the scholar's and author's haven; the statesman's, scientist's and businessman's essential resource; the nation's memory."

The results also suggest that government should not be involved in business and industry particularly in non-heavy industry where it does not have comparative advantage. Even, governments across the world have been divesting from the heavy industries in stages. The usual stages are reforms in incentive system and remuneration structure, subcontracting to private sectors through competitive tendering, agencification, worker-management buy-outs, partial privatization through selling shares in the capital market, and finally full divestiture. With the increasing globalization, joint ventures, mergers and acquisitions have become easier. In this changed scenario even if there are not many domestic entrepreneurs available, foreign investment can reduce that gap. Particularly in weak democracies, reforms in public sector do not work well. Also, managers of political firms are less constrained by market considerations and find it easier to obtain subsidy and to mask bad management under the guise of fulfilling other social goals. Importantly, government has the comparative advantage in other important things including redistribution of income, cultural and welfare activities, maintaining harmonious labor-employer relationship, and human rights.

The human behavior literature and economic literature suggest that every rational

individual (there are exceptions, however) acts for his or her own interest. But people do not live separate. They live in communities. They have different philosophies, attitudes, perceptions, and ways of life. Good human qualities require basic needs, quality of life, enlightenment, dignity, self-respect and respect for others, independence, harmony, competition, cooperation, trust, individualism and collectivism. The above scenario may lead to conflicts among various sections of a society. In the absence of government regulations and government assistance, many of these human qualities and logical opposites may be under threats. A representative government can work towards this package of life because individual sections of a society work more for their own interests. A government can bring alignments in the interests of different sections of a society. It has a role in bringing a minimum consensus and balance among diversified interest groups. Also, government interacts with the people as well as international authorities and international culture. Gender discrimination, for example, is still present in many developing countries but government has to respond to queries about this discrimination from various international bodies including the United Nations. Thus a government is under obligation to provide for equal opportunities, human rights, harmony, and cohesiveness among various sections of a society.

The results have higher implications for developing countries where most of the public services are at abysmal levels. Also, governments in developing countries are highly involved in business, trade, commerce, and regulation, which open higher avenues for corruption and rent seeking. Although official statistics in many of these countries show increasing enrolment ratio in primary and secondary levels, there are wider differences in quality of schools available to rich and poor children (World Economic Forum 2000). In village levels, materials in schools and colleges are mainly local; materials on international knowledge are costly and are almost out of their reach. But, for enlightenment both local and international knowledge are necessary. Public provisions appear to be important in reducing this gap in quality of education. Public or institutional libraries are expected to have better quality materials than in personal libraries for the simple reason that one is based on institutional approach and the other is based on individual approach. Public libraries can help individuals sustain their love for learning when they cannot buy for their personal libraries during periods of economic uncertainties. If an individual depends only on his own collections it could limit his ability and interest for learning. Good materials are costly and an individual has limitations on his investment for learning and knowledge. Public libraries can help fill up this individual limitation and help people sustain their life

long learning.

The limitation of the paper is that it uses figures rather than the process in arguing about the roles of government in human development. Also, the paper does not address the socio-historical and political context in which the data is generated. Figures do not, however, always explain the quality of government. Rather processes, methods, efficiency, effectiveness, and output are more important in understanding the various roles of government in human development. Detailed process studies on various public provisions—public libraries, telephones, transport, park and recreation can be future research agenda. Process aspects such as the nature of partnerships (between the welfare state and citizens, and between public and private organizations) and networks in providing public services can be future research agenda. Also, the measures of human development used in this study are narrow; these measures do not consider prudential values such as autonomy and liberty, self-respect and aspiration, participation in social life, and political and civil rights required for well-being and human development.

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**Regression Analysis with Human Development Index (1988) as the
Dependent Variable**

$$\text{HDI} = a_1 + b_1 \text{LogGDP} + b_2 \text{LogAge} + b_3 \text{RG}$$

Independent variables:	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Constant:							
T	17.6	9.23	11.4	9.20	10.5	8.91	8.84
Sig.	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Log of GDP:							
Beta	0.17	0.25	0.58	0.49	0.52	0.48	0.38
T	2.79	1.87	8.75	6.54	7.75	7.03	5.08
Sig.	0.00	0.06	0.00	0.00	0.00	0.00	0.00
Log of Age of Constitution:							
Beta	0.05	0.19	0.17	0.19	0.13	0.15	0.00
T	0.94	1.94	2.60	2.65	1.89	2.17	0.02
Sig.	0.34	0.05	0.00	0.00	0.06	0.03	0.98
Roles of Government (1-7)							
Beta	0.65	0.32	-0.35	-0.07	-0.26	0.23	0.57
T	10.2	2.47	-5.67	-1.04	-4.03	3.60	6.45
Sig.	0.00	0.01	0.00	0.29	0.00	0.00	0.00
Adjusted R	0.60	0.33	0.43	0.32	0.38	0.36	0.62
F	67.2	13.1	42.6	27.1	34.6	31.3	44.9
Change in R ²	0.32	0.06	0.11	0.00	0.06	0.05	0.19
Change in F	105	6.14	32.1	1.09	16.2	12.9	41.6
Significance	0.00	0.02	0.00	0.29	0.00	0.00	0.00
N	133	73	164	164	164	161	80

HDI: Human Development Index.

LogGDP: Log of GDP total.

LogAge: Log of age of the first constitution.

RG: Roles of government from 1 to 7 below.

1. Log of number of public telephones per 1000 people.

2. Log of number of books in public libraries.

3. Number of ministries.

4. Log of number of heavy nationalized industries.

5. Log of number of non-heavy nationalized industries.

6. Women in government as a percentage of total government employment.

7. Corruption perception index.